Ottawa

HOUSING MARKET OUTLOOK

Spring 1997

RESALE MARKET

RECORD HIGH SALES IN 1997?

Low mortgage rates, stronger economy and more consumer confidence are forecast to propel the sales of existing homes to a record high level in 1997. A 12 per cent growth expected this year would bring the sales volume to above 9,600 units, more than ever before in this region.

Record high home sales will be welcome news for the local real estate industry which suffered major setbacks in the nineties. Home sales declined steadily from the peak of 9,424 units in 1988 to a 13 year low of only 6,481 units in 1995. However, last year was strong beyond expectations as sales, driven by declining mortgage rates, grew by a whopping 33 per cent. Since mortgage rates are forecast to edge up this year (see p. 7), sales growth will be less spectacular than in 1996 but still sufficient to bring sales volumes to an all time high.

MLS* sales in 1997
Forecast per cent annual change

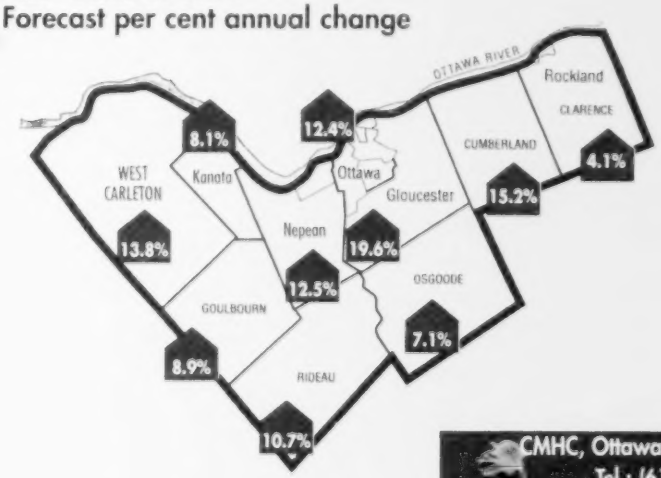

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Table 1 - MLS Sales and Prices

	Sales				Average price			
	1996	% annual change	1997 (F)	% annual change	1996	% annual change	1997 (F)	% annual change
Cumberland	703	38.4	810	15.2	143,220	-1.6	145,400	1.5
Goulbourn	271	18.9	295	8.9	163,029	-3.6	164,800	1.1
Gloucester	1,147	32.1	1,280	11.6	132,566	-1.5	134,700	1.6
Kanata	731	20.2	790	8.1	147,082	-3.1	148,700	1.1
Osgoode	154	15.8	165	7.1	141,128	3.2	146,600	3.9
Nepean	1,246	46.8	1,412	13.3	143,580	-2.7	144,200	0.4
Vanier	91	59.6	105	15.4	103,459	-5.5	104,100	0.6
Rockliffe	28	40.0	34	21.4	493,036	-11.7	490,700	-0.5
West Carleton	224	32.5	250	11.6	145,396	3.9	151,800	4.4
Rideau	169	42.0	187	10.7	182,961	-15.3	180,900	-1.1
Ottawa	2,536	40.9	2,855	12.6	148,090	-2.7	149,800	1.2
Clarence	244	17.3	254	4.1	105,651	-4.2	105,900	0.2

Cumberland and Nepean to lead the sales growth in 1997

In 1997, sales will continue to be stronger in those areas that suffered more during the years of a declining market. For example, The City of Ottawa had a relatively steep 22 per cent decline in sales in 1995 and then posted an above average rise of 41 per cent in 1996. Similar patterns occurred in Nepean, Cumberland, Vanier, and Rideau. In contrast, more stable market conditions i.e. milder drops during bad times and less spectacular growth in 1996 were recorded in Kanata, Osgoode, West Carleton and Clarence. It is worth noting that the only municipality that posted rising sales in both of the last two years was Goulbourn.

Cumberland and Nepean are forecast to be regional leaders in terms of sales growth in 1997. Sales in Kanata, Osgoode and Goulbourn will rise by less than the regional average (Table 1).

Townhomes popularity peaked in 1996

Last year's strong rebound in sales was not evenly distributed across different house types. Driven by high demand from first-time homebuyers, the sales of freehold townhomes soared by an above average 42 per cent in 1996. As a consequence, the share of these units in all sales edged up from 5.2 per cent in 1994 to 6.4 per cent in 1996.

Prices of freehold townhomes declined by less than the average in 1996 mainly because of higher demand for smaller homes coming from first-time homebuyers. Based on the expected edge-up in mortgage rates, the share of first-time homebuying in all home sales will not rise in 1997. As a consequence, the prices of freehold townhomes will not rise more than the prices of other home types.

Oversupplied condominium market

Most of existing townhomes are not freehold units but condominiums. The declining market conditions of

A TALE OF TWO CITIES

It is sometimes said that a picture tells a thousand stories. The same holds for a good chart. Chart 1 (on the opposite page) presents the average house prices in Ottawa and Toronto in the last 40 years. Inflation was eliminated from these series as home prices are provided in constant 1996 dollars.

Forty years ago house prices were virtually the same in Ottawa and Toronto, roughly $18,000 in that time's money or around $85,000 in today's dollars. Prices remained flat in the first decade and then edged up in the second decade. The third decade, from 1975 to 1984, was marked by real price declines in both cities, slightly more in Ottawa than in Toronto. The recovery after the early eighties recession started in Ottawa a year before Toronto and, in 1985, the average home prices in the two cities were again virtually the same.

Driven by the real estate speculation, Toronto prices skyrocketed in the late eighties and more than doubled in value in four years. Ottawa prices trended up moderately and gained only 7 per cent in value in the same four year period. In 1989, the average homeowner in Toronto had a house worth $324,000, more than double than his counterpart in Ottawa. If he managed to sell his house in that year, he made a very fortunate business decision since home prices in Toronto plunged in the following years and lost 40 per cent of their value. Ottawa prices dropped by 14 per cent in the same period.

The moral of the story is pretty straightforward. Ottawa is a much more stable housing market where one can not easily hope for spectacular capital gains on residential real estate investments but one does not have to fear huge losses either.

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the nineties hit condominiums hard. Their share in all sales dropped from 24 per cent in 1993 to 18 per cent in 1996. This was accompanied by sharply decreasing prices. In the last three years, the average price of condominiums dropped by 11.2 per cent, compared to a 5.2 per cent drop for all units.

Condominiums will take part in this year's housing market recovery, albeit at a lower rate of growth than other home types.

Only seven out of a hundred condominiums listed for sale were sold at the end of 1996. Although this was a higher ratio than at the beginning of the year when only five out of every hundred units were sold, it indicates a very weak market where too many vendors chase too few buyers. This was confirmed by the average number of days that a condominium spent on the market before it was sold. At the end of 1996, it took 102 days to sell a condominium unit, compared to only 85 days for all other units.

In short, condominiums represent a weaker side of the residential market and this will likely continue in 1997.

Two-storey homes and bungalows

By far the most popular house types in Ottawa are two-storey homes and bungalows. During the declining market of the nineties, the share of these units in all sales has risen and reached a peak in 1995. Despite a slight edge down last year brought by high demand for smaller homes, two-storey homes still accounted for 36 per cent of all sales in 1996. Bungalows had the second highest 18 per cent share of all sales. Based on the expected rise in move-up buying, the share of larger two-storey homes in all sales will nudge up in 1997.

Prices of larger homes are traditionally volatile. They rise more than the prices of smaller homes during good times and they drop faster during bad times. This was confirmed in the last three years: the prices of all homes declined by 5.2 per cent while the prices of two-storey homes dropped by 8.1 per cent, and prices of bungalows edged down by 5.4 per cent.

Slightly higher prices in 1997

More strength in the local economy and depleting inventories of homes for sale will halt a three year decline in home prices in 1997.

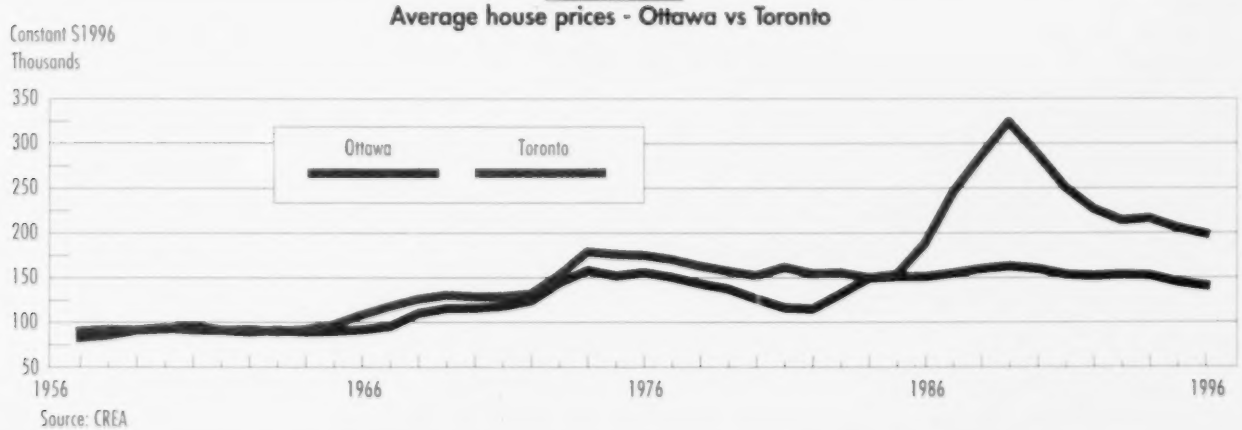
The inventory of homes for sale has been decreasing from the peak of 9,113 units in July 1995 to 6,060 units in December 1996. At the same time, the sales of homes grew steadily in the last year and a half. Less supply and more demand leads to higher prices, as any textbook of economics tells. Thus, the stage is set for a price improvement in 1997. The level of improvement, though, will not be impressive.

A modest one to two per cent house price growth in 1997 will be in line with the expected inflation, which means that house prices in Ottawa will remain flat in real terms.

The number of units listed for sale divided by monthly sales gives an indicator of the state of the housing market called the duration of supply. In December 1996, the duration of supply in Ottawa was 8.8 months, much lower than a year ago but still high in relative terms. The comparable figures at the end of 1996 were 4.3 months in Toronto and 6.8 months in London. In other words, the Ottawa housing market has to work through its oversupply before prices can take off.

Chart 1

Average house prices - Ottawa vs Toronto



Source: CREA

NEW HOME MARKET

Boom continues in 1997

The outlook for new home construction in the Ottawa area continues to look bright. After a strong come back in 1996, the new home market has started 1997 on a strong footing. The number of new ownership homes in the Ottawa region more than doubled in the first two months of this year compared to the same period of 1996. The annual total in 1997 is expected to rise to 3,500 units.

Low mortgage rates combined with improving employment levels and record high levels in the resale market will drive the new ownership market in 1997. In spite of this growth, new home construction will remain well below the activity seen in the late eighties, which reflects the differences in demographic and economic realities between the eighties and the nineties.

The 'boom' years are gone. New demographic and economic realities will constrain longer term household formation.

Relative growth in new ownership construction will be stronger in the western suburbs (Nepean, Kanata, Goulbourn) than in the city centre and the eastern part of the region.

Inventories reflect changing market

The federal and municipal government job cuts brought a sharp drop in demand for single family homes in 1995 and, in turn, a decrease in construction activity. By January 1996, the number of new single detached homes either under construction or completed and not yet occupied had fallen to 324 units. However, the inventory of new single family homes grew substantially in the second half of 1996 responding to the increase in demand. Builders have regained the confidence to begin to rebuild new inventory as they continued to see strong demand growth.

In January 1997, the supply of singles consisted of 544 units. Given an average absorption rate of 101 units per month over the last twelve months, this inventory would last 5.4 months. This indicates a balance market, as it takes approximately 4 to 6 months for a single family home to go from the approval stage to being completed.

Market for higher priced homes poised to rise

The median price of an absorbed single family home in 1996 was $178,900, down from $188,900 in 1995. The drop is a consequence of larger numbers of first-time buyers opting for smaller and more modestly priced homes. For example, the share of single family homes priced below $150,000 increased from 10 per cent in 1995 to 18 per cent in 1996. In contrast, the share of the upper part of the market priced above $190,000 dropped from 47 per cent in 1995 to 34 per cent in 1996. The sales of the most expensive homes almost vanished: new homes priced above $350,000 accounted for more than four per cent of sales in 1995 and less than one per cent of sales in 1996.

A strong resale market and reasonable mortgage rates in 1997 should translate into more construction as potential move-up buyers find it easier to sell their current home and relatively affordable to buy a larger new home. As a result, the absorption of larger new homes will strengthen, driving up the median price of singles to $184,000 in 1997.

New single family homes in 1997
Forecast per cent annual change

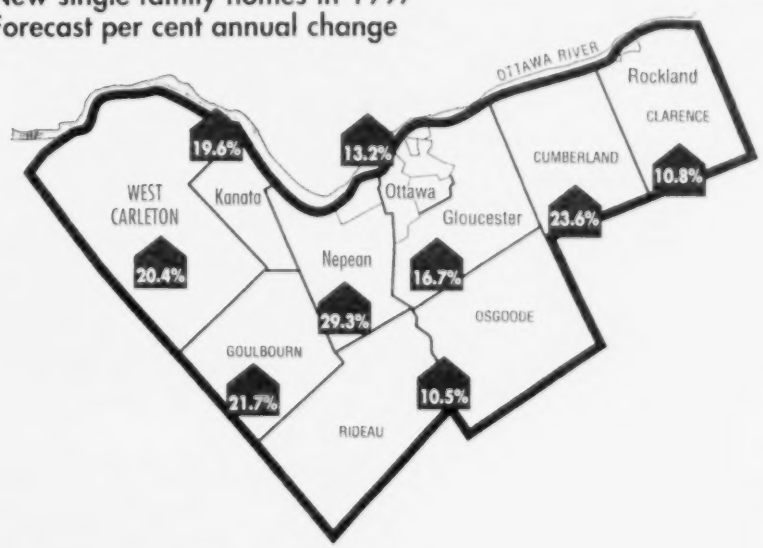


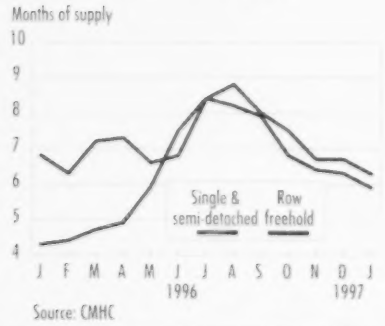
Table 2 -
New Singles and Townhomes in 1996

	Singles				Freehold townhomes			
	1996	% annual change	1997 (F)	% annual change	1996	% annual change	1997 (F)	% annual change
Ottawa	106	100.0	120	13.2	409	249.6	420	2.7
Gloucester	258	160.6	301	16.7	221	82.7	262	18.6
Kanata	189	52.4	226	19.6	157	42.7	188	19.8
Nepean	259	42.3	335	29.3	224	37.4	270	20.5
Cumberland	140	141.4	173	23.6	209	35.7	258	23.5
Goulbourn	253	120.0	308	21.7	24	100.0	35	45.8
West Carleton	54	1.9	65	20.4	4	0.0	8	100.0
Rideau/Osgoode	114	62.9	126	10.5	0	0.0	0	-
Clarence/Rockland	65	35.4	72	10.8	0	87.5	0	-

Balanced townhomes market

First-time buyers drove the market in 1996 as record high affordability convinced many renters it was the time to buy a home. The strength of the first-time homebuying activity helped townhomes to capture a large share of the new construction in 1996. The market share of freehold townhomes continued to rise strongly from 16 per cent of all new ownership homes in 1989 to nearly 45 per cent in 1994. Over the last two years, it appears that the townhome market may have reached its peak, holding steady at approximately 42 per cent of the ownership market. In 1997, this share is expected to fall below 40 per cent as more demand from move-up buyers results in new single family homes regaining market share.

Chart 2
Duration of supply



Source: CMHC

Despite the forecast drop in 1997, the share of freehold townhome construction in the Ottawa region continues to remain well above the average. For example, the comparable share in Ontario as a whole in 1996 was only 15 per cent.

In January 1997, there was an inventory of 590 freehold townhomes in the Ottawa region. Based on average monthly absorptions over the last twelve months, there is currently a supply of six months, indicating a balanced market (see chart 2).

Condominium market to remain oversupplied

All new condominiums built in the Ottawa region in 1996 were concentrated in two municipalities. The City of Ottawa had 87 new condominium starts while Gloucester accounted for 69 new units. Most new condominiums were of the apartment type. Only 22 units were townhomes.

Currently there is an inventory of 257 new condominium units throughout the region. Given the average rate of absorption of 13 units per month, there is a 21 months supply of condominiums on the market. This is very high and indicates an oversupplied market.

To add to the oversupplied situation in the condominium market, persistently high vacancy rates have convinced many Ottawa landlords to convert their rental units into condominiums. More than 500 rental units were approved for conversion to condominiums in 1996 and roughly 300 more units are pending. These conversions, combined with the current new supply on the market, will keep the condominium market oversupplied throughout 1997.

FIRST CONDOMINIUM SURVEY IN OTTAWA

CMHC conducts an exhaustive survey of rental units in the Ottawa region each year, but this survey does not capture the potentially large condominium rental market. In November 1996, the Ottawa Branch of CMHC conducted its first survey of condominiums. The survey revealed that 35 per cent of all condominiums were either rented or available for rent, representing roughly 14,200 units. With these units taken into account, the estimated stock of all rental units in the Ottawa region rises by 20 per cent to above 84,000 units.

While the share of condominiums that are rented is large, the average vacancy rate is low when compared to regular rental projects. Only 1.2 per cent of condominiums that were available for rent were vacant compared to a 4.9 per cent rate in the regular rental market. At the same time, rents in rented condominiums were 10 to 20 per cent higher than in comparable regular rental units. The low vacancy rates and high premiums on rent show the importance tenants place on living in a predominantly ownership residential setting.

To order a copy of the Ottawa 1996 Condominium Report priced at $15, contact the Ottawa Branch of CMHC at (613) 748-5128.

RENTAL MARKET

High vacancies discourage investment

Landlords will be better off in 1997 as vacancy rates are forecast to drop from the record high levels reached in 1996. However, tenants will still have the advantage of a high absolute level of vacancies which provides for sufficient choice .

The private apartment vacancy rate is forecast to edge down from 4.9 per cent in October 1996 to 4.0 per cent in October 1997. This will come as a consequence of both supply and demand factors. On the supply side, only 68 private rental units were started in 1996, well below the annual average of 347 units during the nineties, let alone the prosperous late eighties when more than one thousand units were built on average each year. Private investors reacted strongly to the rising vacancies by almost extinguishing new rental construction. Furthermore, in 1996, the provincial government has canceled all assisted rental construction which averaged 638 units per year in the nineties. Given that it takes at least 6 - 8 months to put new units on the market, and that the recent trend of conversions from rental units to condominiums will continue, the supply of rental accommodation will hardly rise in 1997.

On the demand side, a rebound in employment and the forecast decrease in the affordability of homeownership due to higher mortgage rates in 1997 will bring more tenants to the rental market. As a consequence of higher growth in demand than supply, vacancy rates are forecast to edge down in 1997. Fewer vacancies will lure investors back to the rental market and new rental construction will start to expand later in 1997.

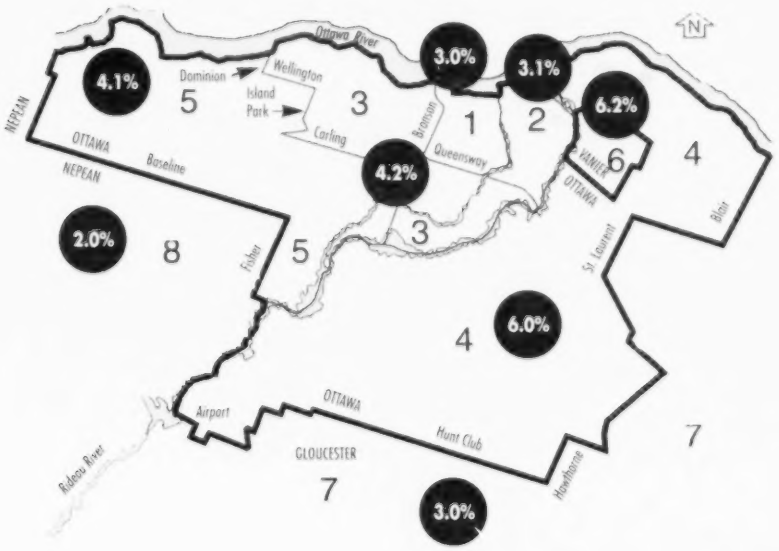
Rents will hardly increase in 1997 as a high number of vacant units keeps a lid on rental prices. The rental market will have to work through its oversupply before rents can take off.

Vacancy rates are forecast to drop across the region, but more so in the suburbs than in the City of Ottawa. The eastern part of the City, including Vanier, will continue to have the highest absolute vacancy rates of above 6 per cent in 1997. Landlords in the western suburbs will enjoy the lowest vacancy rates as rental demand stemming from the employees of the west-located high-tech industry continues to be buoyant in 1997. ❖

MORE DETAILED ANALYSIS

For a complete picture of the Ottawa rental market, including vacancy rates and rents by zone, total number of private and socially assisted units by zone, average rents in units that include (exclude) heating costs by zone, etc., order the Ottawa 1996 Rental Market Report by calling 1 800 668 2642.

Forecast vacancy rates in 1997



ECONOMIC OVERVIEW

Employment to reach above 400,000 in 1997

The local economy performed beyond expectations in 1996 as employment grew by 3.4 per cent, faster than in any other Canadian city.

For the first time ever, total annual employment in the Ottawa region is expected to reach above 400,000 in 1997. This would represent a 2.0 per cent annual growth, slightly higher than the national employment growth rate expected by most forecasters.

A closer examination of job gains shows that they were concentrated in highly cyclical sectors. Most of the nearly 13,000 new jobs in 1996 were created in the finance, insurance and real estate (4,600 jobs), trade (4,500 jobs) and construction (1,700 jobs) sectors. In contrast, the manufacturing sector, which accounts for a good chunk of the high-tech industry, lost 5,100 jobs in 1996. However, the end of the year indicated a turnaround in this sector: after more than 4,000 new jobs created in the fourth quarter 1996, the manufacturing sector and the high-tech industry in general became the main hope of the local economy for more jobs in 1997.

The construction and real estate sectors will also add some jobs in 1997 as new home construction and sales of existing homes continue to advance. The public administration sector will shrink in size by 2 to 3 thousand jobs in 1997 which will bring the total number of people working in this sector to below 70,000. In 1992, more than 90,000 people worked in public administration.

MORTGAGE RATES OUTLOOK

Mortgage rates are expected to rise modestly in 1997 in response to the rising demand for credit, fears of inflation, and overheated stock markets in the U.S.

To the surprise of most financial analysts, higher demand for long-term government bonds at the beginning of February 1997 pushed down bond yields, providing some room for easing mortgage rates. Bond yields are a benchmark for longer-term mortgage rates, while deposit rates for GICs act as a guide to shorter-term lending costs. At 5.00 per cent for a one year term and 7.00 for a five year term, mortgage rates are currently the lowest since 1965.

The low interest rate environment will undoubtedly continue to boost the sales of new and existing homes in 1997. However, as North American economies gain more strength, the fears of inflation might provoke investors to sell their fixed income securities. This would cause monetary authorities to tighten up which would force lenders to raise mortgage rates.

The one-year mortgage rate is expected to inch up to 5.50-5.75 per cent by year end before declining to 5.25-5.50 per cent in 1998. The three-year rate is forecast to be in the 6.50-6.75 per cent range by year end and to fall back to the 6.25-6.50 per cent range by the last quarter of 1998. The five-year rate will be around 7.25-7.50 per cent by year end and will decline to 7.00-7.25 per cent by late 1998.

OTHER CMHC REPORTS

Apart from this report, the Ottawa Branch of CMHC produces the following reports:

New Housing Market Report - quarterly report with detailed statistics on new construction by municipality and house type in Eastern Ontario

Rental Market Report - annual report with detailed statistics on vacancy rates and rent levels in rental projects in Eastern Ontario.

Retirement Homes Report - annual report with data on vacancy rates and per diem charges in retirement homes in Ottawa and Kingston.

Condominium Report - annual report with data on owned vs rented condominiums, vacancy rates and rental charges in Ottawa

FORECAST SUMMARY

Ottawa Metropolitan Area*

	1994	1995	1996	% chg	1997(f)	% chg
RESALE MARKET						
MLS sales						
Total	7,630	6,481	8,648	33.4	9,660	11.7
Residential freehold	6,006	5,311	7,060	32.9	7,900	11.9
Condominium	1,624	1,170	1,588	35.7	1,760	10.8
MLS average price						
All units	$147,543	$143,183	$140,398	-1.9	$142,500	1.5
Residential freehold	$158,808	$152,569	$150,087	-1.6	$152,500	1.6
Condominiums	$105,931	$100,632	$97,951	-2.7	$99,200	1.3
Active listings (annual average)	-	7,907	7,690	-2.7	6,850	-22.7
Sales to active listings ratio**	-	6.8	9.4	-	11.8	-
Days on market***	77	94	89	-	83	-
NEW HOME MARKET						
Starts						
Total	3,929	2,190	3,066	40.0	3,650	19.1
Single family	1,732	807.00	1,439	78.3	1,720	19.5
Multiple (semi, row, apt)	2,197	1,383	1,627	17.6	1,930	18.6
Median price, single family	$185,900	$188,900	$178,900	-5.3	$184,000	2.9
Complete and unoccupied (Dec)						
Single family	172	140	128	-8.6	130	1.6
Multiple (semi, row, apt)	822	879	651	-25.9	620	-4.8
RENTAL MARKET						
Vacancy rate (October)	2.6%	3.8%	4.9%	-	4.0%	-
Average rent, two-bed. apartment	$738	$738	$739	0.1	$740	0.1
Rental housing starts	302	530	72	-86.4	140	94.4
ECONOMIC OVERVIEW						
Mortgage rate, 1 year	8.28	8.38	6.19	-	5.65	-
Mortgage rate, 5 year	9.34	9.16	7.95	-	7.40	-
Employed	393,400	380,800	393,600	3.4	401,500	2.0
Net migration	7,160	5,490	4,750	-13.5	5,150	8.4

* Ottawa Metropolitan Area is comprised of the following municipalities: The City of Ottawa, West Carleton, Kanata, Nepean, Goulbourn, Rideau, Osgoode, Gloucester, Vanier, Rockliffe Park, Cumberland, Clarence, and Rockland.

** Average monthly sales divided by the average active listings

*** Average number of days the unit listed for sale spends on the market before it is sold

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